

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

STAFF REPORT

ISSUE: Staff recommends that Board of Directors (Board) appoint Gilbert Associates, Inc. (Gilbert) to act as I-Bank's accounting services consultant for a three-year period beginning June 1, 2009 and ending May 31, 2012, and that the Board authorize a contract for accounting services with Gilbert for this period, and for a further period of two years if approved in the future by the Board.

BACKGROUND: I-Bank has issued three series of revenue bonds totaling \$157.8 million since March 2004 to provide additional funding for the Infrastructure State Revolving Fund (ISRF) Program (ISRF Program Bonds). The most recent issue was in September, 2008. I-Bank must issue audited financial statements in connection with the sale of its ISRF Program Bonds for two reasons. First, the disclosure documents distributed in relation to the sale and issuance of the ISRF Program Bonds must include information about the financial status of the ISRF Program. Second, continuing disclosure agreements entered into by the I-Bank in conjunction with the issuance of each series of ISRF Program Bonds require the I-Bank to provide annual audited financial statements to the ISRF Program Bond trustee and to each Nationally Recognized Municipal Securities Information Repository so long as the ISRF Program Bonds are outstanding.

The I-Bank has issued audited financial statements as a result of the issuance of the ISRF Program Bonds, beginning with the audit of its fiscal year 2003-2004 financial statements. Initially, the auditor of these financial services, Gilbert Associates, Inc. both compiled and audited the financial statements. However, due to changes in accounting rules shortly after entering into the Gilbert audit contract, an auditor could no longer perform both accounting functions. As a result of these changes, I-Bank staff began producing internally-prepared financial statements in fiscal year 2005-2006.

With the growth of the ISRF Program and the issuance of another series of ISRF Program Bonds in September 2008, the I-Bank's financial statements became even more complex. These financial statements will continue to grow in complexity as new loans are made, new series of bonds are issued. Additionally, the I-Bank's accounting staff will be required to maintain financial statements in accordance with ever-changing governmental accounting rules. The consequence of error of not producing audited financial statement on time or not in compliance with all applicable governmental accounting rules are severe, and could impact the I-Bank's ability to continue to issue bonds to provide additional funding for the ISRF Program.

The I-Bank's accounting staff could greatly benefit from obtaining accounting consulting services that includes advice on accounting and audit matters, assistance with the accounting function, and preparation of annual financial statements from an accounting firm having governmental and auditing experience, which will enhance the I-Bank staff's ability to prepare annual financial statements that can be given audits with no findings.

The scope of work identified in the RFQ consists of the following:

- A.** Assist I-Bank staff in the preparation of (1) internally-compiled monthly and annual I-Bank financial statements, (2) notes to the annual audited I-Bank financial statements, and (3) review of the Management Discussion and Analysis letter in preparation for the annual I-Bank's financial statements using the Governmental Accounting Standards Board (GASB) 34 reporting model. The I-Bank financial statements and related documents will follow all federal and state requirements in accordance with generally accepted accounting principles, (GAAP) and applicable and elected GASB statements and Financial Accounting Standards Board (FASB) pronouncements.
- B.** Perform accounting tasks associated with the development and/or maintenance of schedules, reports and other data utilized in the preparation and compilation of the I-Bank's monthly financial statements and the annual audited financial statements. Examples of such tasks include the update of the annual loan roll, reconciliation of accounts, and preparation of and finalization of the trial balance.
- C.** Provide general accounting advice in the areas of internal controls, accounting procedures, record keeping, management reports and accounting communications.
- D.** Provide accounting guidance and advice on routine and complex governmental accounting transactions and journal entries, yearend adjusting entries and accruals. Answer technical questions and provide comprehensive guidance on accounting transactions dealing with financial statement components such as revenues, expenses, receivables, payables, loans, securities and bonds.
- E.** Review existing State and fund accounting procedures and methods, and provide support in developing and drafting GAAP compliant accounting procedures.
- F.** Provide official literature and interpretations on relevant accounting standards including GASB and FASB as well as guidance during the editing of notes to financial statements for year end financial audit. Answer technical questions regarding GASB and FASB as well as providing the latest pronouncements and notifications throughout the year.
- G.** Provide advice and assist the staff in the implementation of all current and new GASB standards or other pronouncements that affect the methodology or procedures of the accounting operation or accounting records.

- H. Provide other accounting services identified by the I-Bank as necessary in connection with the sales of bonds or making loans under the bond-funded Infrastructure State Revolving Fund Program.

It is not anticipated that these consulting services will be required often enough to support an additional accounting position at the I-Bank. In order to determine whether these services could be obtained using existing State resources, the I-Bank contacted the State Controller's Office, Department of General Services, California Housing Finance Authority, Bureau of State of Audit and Veterans Affairs to ask if these types of audit-related accounting consulting services were offered by them to other State entities. The responses received from these State entities reflected that either: (a) does not provide accounting services to other State entities; b) the State entity was not able to provide the type of audit-related accounting consulting services requested due to lack of expertise in GAAP financing or because the State entity was not sufficiently staffed to provide accounting consulting services on a contract basis, or (c) the State entity was willing to provide a small portion of the accounting services requested, on a continuing basis, but not all of the requested services on a consulting (on-call) basis.

On March 5, 2009, I-Bank staff issued a Request for Qualifications (RFQ) seeking proposals from accounting firms interested in providing accounting consulting services to the I-Bank. The RFQ was distributed directly to 41 firms (derived from a list of accounting firms known to I-Bank staff) and also posted to the State of California Contracts Register. The following three firms responded to the RFQ: Gilbert; Kevin W. Harper, CPA (Harper); and Huron Consulting Services LLC (Huron).

A review committee consisting of the Assistant Executive Director and two I-Bank managers familiar with the auditing requirements related to the ISRF Program Bonds or having state and private sector accounting expertise reviewed the three responses based upon the criteria described in the RFQ which were: the firm's qualifications and experience; the competitiveness of the proposed fees; and, the overall quality of the written response to the RFQ.

The review committee determined that Huron did not meet the minimum qualifications for consideration established in the RFQ. Specifically, Huron's proposal did not identify that the firm had been engaged to audit the financial statements of the State of California or at least one State agency, department, board or authority in the last three year or that the firm had been engaged to audit financial statements for at least three California local government entities in the last three years.

The review committee considered the proposals from Gilbert and Harper, and selected Gilbert.

Firm Qualifications and Experience. Gilbert was founded in 1984 as a corporation and is one of the largest accounting firms in Sacramento. The firm has offices located in Sacramento and Folsom, California. The firm has 8 Shareholders, 12 managers, 14

senior associates and 23 staff associates. In the last 3 years, Gilbert has audited the financial statements of 9 state entities including but not limited to the I-Bank, the California Energy Commission and the Bureau of State Audits. In addition to State auditing experience, Gilbert has audited within the last 3 years the financial statements of numerous cities and counties in California, including but not limited to the County of Placer, City of Rancho Cordova and the Placer County Water Agency all of which were identified as having issued bonds.

Gilbert has proposed the assignment of highly qualified staff to the I-Bank with expertise in government related accounting matters.

Gilbert has extensive experience with the I-Bank's financial statements since the firm was selected as I-Bank's first audit firm in 2004, and served in that capacity for five years. I-Bank staff has been satisfied with the service it has received from Gilbert during this time. The I-Bank's audit contract with Gilbert expired on June 30, 2008.

Competitive Fees. Gilbert's proposed fees for performing the scope of services outlined in the RFQ will be based on the following hourly rates and charges:

Cost for Services		
		Hourly Rate
Staff Costs	Shareholder	\$220
	Manager	\$135
	Senior Associate	\$100
	Staff Associate	\$85
	Clerical	\$60
	Describe	
Expected Staff Travel	None.	
Miscellaneous Expenses	Only parking costs anticipated. Direct reimbursement.	

Gilbert's proposed hourly rates were lower than the other firm that met the minimum qualification established in the RFQ in every category except Shareholder/Partner in which their fee was only \$5 per hour higher. The RFQ estimated a minimum of 200 hours of accounting services in order to perform the scope of work. This number of hours is an estimate since the I-Bank has never requested these types of services before. Compensation for the assignment shall consist solely of reimbursement for time and expenses incurred by the firm. Prior to any accounting service being performed, Gilbert and the I-Bank will discuss each assignment and agree on the firm's staff assigned to perform the work along with a negotiated expected number of work hours and total assignment cost. Thus, the I-Bank staff conservatively estimates the annual amount needed to perform the scope of services at the highest rate times the estimated minimum number of hours to be approximately \$50,000 per year.

The I-Bank recently hired an Accounting Administrator II, who is also a Certified Public Accountant, to manage the I-Bank's Fiscal Unit and supervise two existing accounting

staff. It is expected that once this staff member is fully trained over approximately the next year, he will be able to either directly perform or supervise existing I-Bank accounting staff to perform some of the services identified in the RFQ. However, it is also anticipated that that even with a fully trained Accounting Administrator II, the I-Bank will still require the services of an independent licensed Certified Public Accounting firm to perform, on an as needed basis, such functions as: 1) ensuring compliance with all Governmental Accounting Standards Board statements and Financial Accounting Standards Board pronouncements, including official literature and interpretations of such statements and pronouncements; 2) oversight of adequate internal controls and accounting procedures; and, 3) the processing of complex bond accounting transactions.

Gilbert's fees will be paid from accounts held by the trustee for the ISRF Program Bonds and other accounts pertaining to the ISRF Program Bonds.

Overall Quality of Written Response. Gilbert's written response was comparable in overall quality of the other responding firms.

RECOMMENDATION: Staff recommends approval of Resolution 09-18 appointing Gilbert Associates, Inc. to act as accounting services consultant to the I-Bank for a three-year period beginning June 1, 2009 and ending May 31, 2012, and authorizing the Executive Director to execute a contract on behalf of the I-Bank for accounting consulting services with Gilbert for this period in an amount not to exceed \$150,000.00 consistent with the terms of this report.